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Congressman Sestak noted that because of the Southeastern Pennsylvania region's strong base in education, pharmaceuticals, financial institutions, and health-care, our area has fared relatively better than the rest of the nation so far. However, historically, these industries tend to be more stable and to lag declines in other sectors. So, Congressman Sestak said, "we cannot assume that our region's vitality in the area of health care and education will not be further threatened as the nation's economy continues in this downturn. For example, over the last decade, more than 3 million fewer Americans under 65 had employer-covered health care coverage – including 200,000 in Pennsylvania alone. And just this week, two large educational institutions in the state of California have announced substantial cutbacks in student enrollment and faculty hiring."

In addition, Congressman Sestak said, "The unemployment challenge is compounded by the overall loss of wealth of our citizens as a result of the falling stock market -- with a decline of more than \$12 trillion of value this year, and by the continued increase in delinquencies on consumer debt – nationwide, there is more than \$800 billion of consumer financing that is past due – representing 7% of all household liabilities." Congressman Sestak said, "The hard reality is that we have a widespread national problem that touches all of us. We know that for the first time in history, the root cause of this downturn is working through the over-leverage of American consumers -- not businesses. We know that it started with the growing number of foreclosures in the housing market. We know that excesses grew over time, without strong oversight and good credit standards. Mortgage brokers and mortgage lenders had little incentive to ensure that the mortgage loans they were originating and passing on were affordable when variable rate loans reset two-three years later. Consumers and lenders were unduly confident that

house prices would continue their inexorable rise, and they assumed that they would be able to refinance using newly created equity in the home when the time came. Unfortunately, rising house prices were not sustainable, as housing became unaffordable for too many people in many parts of the country.”

The Congressman believes that a large part of the painful, but necessary, correction to restore housing affordability has begun. It's not complete yet, as there are still more than 1 million vacant houses dragging down prices and neighborhoods; there is potential for even more to come as another tranche of variable rate subprime loans reset next year and unemployment rises further. Finally, we can expect house prices to fall another 10%-15% reduction until they become equal to rents, and home ownership is, therefore, affordable again.

In October, the Congress took the first step in passing the Emergency Economic Stabilization Act. The passage of this bill was necessary, but its implementation has not been sufficient. Congressman Sestak has written twice to Secretary of the Treasury Paulson to express his concern that the implementation of the bill is not consistent with the intent of the authorization. He believes that the enacted bill gave authority to the Treasury to purchase troubled assets and to replenish bank capital, and he believes strongly that the solution must address both of these issues. Rather, Secretary Paulson has chosen to implement principally a plan to inject capital into the banks through the purchase of preference shares. Congressman Sestak believes much more emphasis needs to be placed upon removing the toxic mortgage securities from banks, enhancing lending by placing a value on the banks' mortgage securities through auctions and government purchases. For example, a portion of the revised plan for AIG includes expenditures to purchase \$20 billion of its troubled mortgage securities.

In addition, the plan as rolled out by Treasury provided discretion to bank management on the continuation of dividends, executive compensation, and acquisitions – although that was never intended by the Congressional legislation. Together with a number of colleagues, Congressman Sestak has asked for the Treasury and bank regulators to put stringent restrictions on the use of taxpayer funds and to continue to address the issue of the troubled assets on bank balance sheets and the problem of foreclosures. The Congressman believes that a number of actions must be taken immediately to address the major challenges:

Continuing Fallout From Housing Crisis and Stock Market Declines

Better Mortgage Foreclosure Prevention: Presently, 3 million home loans are in default, and we must stop the cycle of foreclosures, dropping home prices, and therefore, failure to attract home buyers. The FHA Reform Act was passed by Congress – permitting lenders and home-owners

to write down their mortgages to 90% of today's appraised value of their homes, while allowing the home-owner to remain in his home at a fixed, affordable interest rate. Only about 200,000 home-owners now are predicted to be helped by this program. While the government ownership of Fannie Mae and Freddie Mac should help modify loans to mitigate foreclosures, a much more aggressive effort needs to be taken through a more comprehensive, concentrated legislative housing package, if we are to stop the foreclosure cycle, and improve the opportunity to recover from this recession in the near term. This must be done.

Meanwhile, Congressman Sestak is supportive of the objectives of the plan identified by the Federal Deposit Insurance Corporation to systematically restructure and modify housing loans to prevent potentially 2.2 million foreclosures over the next two years. He believes it would be within the intended purposes of the EESA to allocate a portion of the approved \$750 billion in funding to FDIC for foreclosure mitigation. Although reviewed at hearings in mid-November, no decision has been forthcoming from Treasury, and no legislation was promulgated by the Congress.

Pension Protection for Seniors: Congressman Sestak introduced a bill, at the request of his constituents, (HR 7293 Financial Security in Retirement Act) to suspend required minimum distributions (RMD) from IRA accounts (in excess of \$300,000) for taxpayers over 70 ½, during 2008, recognizing the lower stock market values in calculating any planned distributions for 2009. This will help our seniors preserve more of their retirement savings after facing massive stock market losses this year.

Pension Protection for Businesses: The Congressman supports provisions of a bi-partisan bill introduced in the Senate which would temporarily relax pension rules requiring sharply higher mandatory payments into their defined-benefit pension plans to give companies time to absorb losses in their plans. This could go a long way toward forcing businesses to layoff workers – or even to close – to meet the emergency payment requirements brought about by the loss of value in their pension plans due to the falling stock market values.

Economic Stimulus Actions

In view of the above, Congressman Sestak was most disappointed this week that no major progress was made to address the nation's fundamental economic challenges, first and foremost, an economic stimulus package focused on job sustainment and job creation.

The Congressman believes that we must tackle the fundamental, underlying challenges which are at the root of so many problems. He believes that a major economic stimulus package injecting about \$200-\$300 billion (up to 2% of GDP) is needed to avoid having a much more severe, protracted recession in 2009 than would otherwise occur. Effort is needed to restore the building blocks for sustaining current employment and creating new, high value jobs for the future. At the same time, he believes we also need to spend stimulus money most effectively to target the needs likely to provide the highest benefit across the broader economy in the near future, such as in the renewable energy economy for job creation.

The House will return to session on 8 December. At that time, the Congressman believes that the Congress must do the following in the Economic Stimulus package:

Infrastructure: Having spoken with representatives from the communities within the district, it is clear there is not adequate state revenue to execute the already contracted – and also the backlog -- of needed investments to renew transportation and schools infrastructure. Investing now in these areas will provide jobs for the next several years. Moody's Economy.com estimates that spending for infrastructure is highly cost-effective – generating \$1.59 of economic benefit for every dollar of support. These infrastructure projects also can lower transportation costs, decrease traffic, increase business productivity, provide environmental benefits, and provide longer-term jobs. Projects to also renew the nation's education infrastructure facilitate the ability of our children to compete effectively for jobs in the future.

Jobs in Renewable Energy: In 2006, the renewable energy and efficiency industries generated 8.5 million jobs and nearly \$970 billion in revenue in the United States. To foster improvements in job creation in this area, the Congressman believes that further investments are required in important future technologies. These investments in the Economic Stimulus bill should include: \$1 billion toward advanced battery technology loans to encourage the manufacture of advanced vehicle batteries and battery systems; \$500 million to accelerate the development of technologies that contribute to our domestic energy efficiency and renewable energy supply; \$100 million to modernize the electric grid and improve our energy infrastructure.

Federal Assistance for Medicaid: There must be a temporary increase in the Federal Medical Assistance Percentage (FMAP) for Medicaid health costs, with increases from one to four percent, at a time of increasing enrollment. States need assistance, as they face decreased revenues in this economic downturn, to address the higher costs and increased number of enrollees due to growing unemployment; these funds, which need to include over \$400 million

in aid to Pennsylvania, would prevent cuts to health insurance and health care services for low-income children and families, as well as generate business activities, jobs, wages and State sales tax revenues that States would not otherwise see.

Unemployment Compensation: This action was addressed on 21 November when the President signed the bill approved on 20 November by the Senate that Congressman Sestak had already supported and the U.S. House of Representatives had passed. The bill extends unemployment benefits seven weeks for all states and 13 weeks for states with high unemployment. Without this extension, more than 56,000 people would have run out of benefits in Pennsylvania while looking for jobs. The Congressman supported this legislation because it has high economic benefit; Moody's Economy.com reports that extending unemployment compensation benefits provides about \$1.64 for every dollar of support.

Food Stamps: The Congressman believes that an increase in food stamps is not only sorely needed but also will provide another boost to the economy. Philabundance – which provides food assistance to the working poor and needy – has seen an increase in demand of over 60% while food contributions have decreased by 40%. In addition, \$2.7 billion in additional funding is needed to address rising food costs for seniors, people with disabilities and very poor families with children. In Pennsylvania alone, this would generate \$190 million in increased economic activity by assisting nearly 1,200 individuals. This year, on average, 27.8 million individuals, and 12.5 million households, received food stamps.

In addition to the Economic Stimulus Actions outlined above, the Congressman believes that the right legislation needs to be passed, one that not only recognizes the economic need – particularly in this challenging time – for a thriving automotive industry but also ensures the transformation of the industry to one that can compete globally in the future with fuel-efficient vehicles.

Support for Auto Industry: Ideally, the Congressman believes that the domestic auto industry should have revolutionized their businesses – as did the non-U.S. auto companies – to compete in an environment where fuel efficiency would be at a premium. But he also recognizes that, unlike the home countries of its Japanese-, German-, and Korean- based competition, the United States has not had a consistent national energy policy driving consumer demand for more fuel efficient vehicles. Further, U.S. capital markets generally have a short-term focus – making it challenging for the domestic manufacturers to make the tough needed decisions for major investments in fuel efficient vehicles to meet uncertain future demand.

The Congressman believes that we can not lose this industry – at this time - since it accounts

for about 4% of all GDP and 10% of U.S. Industrial production (by value). It is estimated that one in 10 American jobs is linked to the auto industry, and Ford, GM, and Chrysler support about 5 million American jobs, including auto parts manufacturers and auto dealers across all 50 states. In addition, more than 2 million American workers, retirees, and their families receive health care benefits through the auto industry. In Pennsylvania, it is estimated that there are about 27,000 jobs auto-related jobs with \$1 billion in annual wages. In addition, in Pennsylvania, auto-related sales taxes normally account for about \$100-million in sales-tax revenue per month.

However, the Congressman also strongly believes that to provide governmental support for the domestic manufacturers, there must be a mandate for the domestic companies to re-tool to produce fuel efficient vehicles with the advanced technologies necessary to substantially reduce the consumption of gasoline and emission of pollutants. Saving the present industry is not the objective; rather, it is absolutely mandatory that any government effort ensures a lean, determined, transformed industry that is competitive into the future on a global scale with jobs that create fuel-efficient vehicles which transform private transportation. To ensure that this is successful, Congressman Sestak also believes that we need a comprehensive and consistent national energy policy to encourage development and purchase of fuel efficient vehicles.

In addition, the Congressman also believes that it is vitally important to maintain high-value research and development and manufacturing capability in this country. The auto industry creates “things of value” that also support a wide range of technical skills, capacity and employment. He believes that this is a much broader issue than just the domestic auto manufacturers; these companies provide critical economies of scale that support heavy truck and construction equipment manufacturing as well as that of the suppliers of necessary commodities and components such as electronics, high-strength steel, aluminum, glass, and plastics.

Therefore, it is critical for our future that we enhance this capability – especially as we look forward to the need for major enhancements in our environmental and energy efficiency. Many cite the fact that the Japanese, Korean and German auto manufacturers have set up shop in a number of southern states, but the reality is that these are primarily final assembly and some engine component jobs with largely all intellectual property and high-value manufacturing capability retained in their home countries.

Beyond the potential for dramatic job losses (which already has raised unemployment above 10% in some regions and could raise the unemployment rate as high as 9.5% nationally), the Congressman’s concern is also about the loss of consumer confidence. Some progress had

been made in stabilizing the conditions within major financial institutions, but confronted with lack of action in the automotive sector, many investors are increasingly concerned about the potential for a deep recession, sending global markets downward again. Also, there would be a devastating loss of revenue to the states and municipalities from lower sales and property taxes.

In addition, the Congressman believes that additional actions should be, but most likely will not be considered in the December session. If that is the case, then he believes a number of these actions should be considered when the Congress returns to session on January 6, 2009. They include:

Codifying and enhancing tax cuts for the middle class in 2009 who have absorbed so much of the deterioration in recent economic conditions;

Avoiding any tax increases for anyone throughout 2009. Every one is impacted by this financial and economic crisis, and we must not stymie any potential investment possible.

Enhance tax cuts for small businesses, both for capital investment, including increased depreciation relief and research and development tax cuts.

As the above actions help the economy to recover beginning in 2010, we must address – under a “pay-as-you-go” government – the national debt, which has been the anchor weighing down our economic prospects. This will take a strong, bi-partisan approach that ensures the middle class are protected by tax relief, while a fair tax code is reinstated. And we must simultaneously ensure the deliberate reprioritization of our investment in four key areas that underpin our future economic security:

Healthcare Security: Ensure a health care policy that provides affordable, accessible quality healthcare to all, and does not leave 80 million Americans without coverage at some point each year. Fixing the system by reducing costs with emphasis on preventive care, a mandate that all are covered, relying on competition and transparency, and disciplined costs with the ability for small businesses to band together to negotiate lower prices.

Energy/Environment Security: End energy policy that allows big oil to reap billions in profit without producing domestic oil, while moving forward with a comprehensive national energy policy that ensures all elements of energy including renewable sources (such as wind, solar), coal sequestration, nuclear power are developed to produce an environmentally sound independence.

Education Security: Our long-term economic viability relies upon a competitive, skilled workforce, adaptable to a globalized world. We must end underfunding and poor implementation of No Child Left Behind, while ending trends that would lead to millions of

Americans unable to afford college. We must build on largest increase in the higher education assistance in more than 50 years, taking into account the impact of the credit crisis on student loan providers, while also closely monitoring compliance with student loan regulations established in 110th Congress. And finally, we must also emphasize pre-K education and the long-term returns it offers.

Defense Security: Move forward by redeploying from Iraq safely and responsibly while holding the Iraqi government accountable for coming to political accommodation. Allocate the necessary resources to Afghanistan to destroy the Al-Qaeda and restore our military's readiness to respond to other contingencies around the world while transforming the military to face the future threats and challenges we may face.

Congressman Sestak said, "While I am disappointed that the above actions were not yet completed, I will press for the Economic Stimulus and other immediately needed legislation upon our return to session on 8 December. I am heartened by the opportunity offered by our new President in the next Congress, come next January. President-elect Obama has already provided strong confirmation that he is ready to lead in the bi-partisan fashion so essential for the success of our nation's future. We can not continue to snipe and snarl across the aisles and throw insults down Pennsylvania Avenue. Rather we need agreement on the framework of a plan, and the will to work together to quickly put in place the necessary actions. Above all, we need a bi-partisan approach for America, and I intend to work first and foremost for this."

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Born and raised in Delaware County, former 3-star Admiral Joe Sestak served in the Navy for 31 years and now serves as the Representative from the 7th District of Pennsylvania. He led a series of operational commands at sea, including Commander of an aircraft carrier battle group of 30 U.S. and allied ships with over 15,000 sailors and 100 aircraft that conducted operations in Afghanistan and Iraq. After 9/11, Joe was the first Director of "Deep Blue," the Navy's anti-terrorism unit that established strategic and operations policies for the "Global War on Terrorism." He served as President Clinton's Director for Defense Policy at the National Security Council in the White House, and holds a Ph.D. in Political Economy and Government from Harvard University. According to the office of the House Historian, Joe is the highest-ranking former military officer ever elected to the U.S. House of Representatives.

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